Homeowner
Protection Office

2006 – 2007 Annual Report

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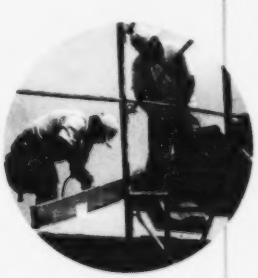
Financial Report March 31, 2007

The HPO's mission is to protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.



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message from the Chair to the Minister

Ken MacLeod
Chair

Honourable Rich Coleman
Ministry of Forests and Range
Minister Responsible for Housing
Province of British Columbia

Minister,

It is with pleasure that I submit the 2006/07 Homeowner Protection Office (HPO) Annual Report.

The HPO's financial position continues to be strong. Residential builder licences issued reached an all-time high of more than 4,700. Consumer confidence in residential construction continues to be high. Results of the fall 2006 consumer survey conducted by an independent research firm indicated that 90% of owners of new homes are very or somewhat satisfied with the quality of the construction of their homes. As a result of the strong residential construction market, licensing fees collected rose 1.5% to $3.5 million in 2006/07. Corresponding expenditures in research and education for the industry and consumers increased from $0.5 million to $0.8 million to address the increased demand for our Building Smart seminars and to support contributions to the industry's educational initiatives.

The HPO encountered fewer applications for PST (Provincial Sales Tax) Relief Grants this year with payments decreasing from $2.9 million in 2005/06 to $2.3 million in 2006/07. The demand for the no-interest repair loan program rose. The number of approved homeowner loans increased from 834 last year to 1,161 this year and housing co-operative loans approved rose from 100 in 2005/06 to 449 in 2006/07. The interest subsidy expense for the Reconstruction Loan Program rose 23% to $6 million when compared to last year.

Despite the increase in the interest subsidy expense, the HPO continues to provide financial assistance to all eligible owners of leaky homes and housing co-operatives as required under the *Homeowner Protection Act (Act)*. This year British Columbians inhabiting 1,610 units have benefited from the Reconstruction Loan Program which helps ensure that no one has to lose their home due to repair costs.

In recent years, industry leadership has been stressing the need for a continued effort to raise the bar of professionalism among Licensed Residential Builders. This year, at your direction, the HPO facilitated a collaborative process with industry to design a new package of qualifications for licensees under the *Act*.

The Ministry and the HPO developed legislative amendments to enhance the effectiveness of the *Act* and regulations. Legislative amendments were passed in the Spring 2007 legislative session. The amendments:

- address the abuse of the owner-builder exemption from residential builder licensing and home warranty insurance requirements
- enable the introduction of more meaningful minimum qualifications for licensees
- provide the authority for improved tools to ensure compliance with the *Act*, and
- authorize a public registry of new homes.

message from the Chair to the Minister (continued)

There were no significant variances in the HPO's results in relation to its service plan performance measures. In most cases, the targets were met or progress was made toward the targets. Market and industry factors which could affect the performance of the HPO include: the strong, but softening residential construction market, industry and consumer demand for the HPO's research and education initiatives, and continued strong demand for financial assistance for owners of leaky homes in an environment of increasing interest rates.

Accountability Statement

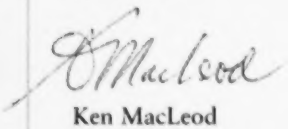
The 2006-2007 Homeowner Protection Office Annual Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act. The board is accountable for the contents of the report and how it has been reported.

The information presented has been prepared in accordance with the BC Reporting Principles and reflects the actual performance of the HPO for the twelve months ended March 31, 2007 in relation to the 2006-2009 Homeowner Protection Office Service Plan. The measures presented are consistent with the HPO's mission, goals and objectives, and focus on aspects critical to the organization's performance.

The Board is responsible for ensuring internal controls are in place to make sure performance information is measured accurately and in a timely fashion.

All significant decisions, events and identified risks, as of March 31, 2007, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets made since the 2006-2009 Homeowner Protection Office Service Plan was released and any significant limitations in the reliability of data are identified in the report.

Sincerely,



Ken MacLeod
Chair

organization overview

Chief Executive Officer Ken Cameron and Minister Coleman at the HPO.

Homeowner Protection Office

Who We Are

The Homeowner Protection Office (HPO) is a provincial Crown Corporation established in 1998 under the authority of the *Homeowner Protection Act* (*Act*).

The *Act*'s mandate is to:

- strengthen consumer protection for buyers of new homes
- help bring about improvements to the quality of residential construction, and
- support research and education respecting residential construction in British Columbia.

What We Do

The HPO, currently with 35 FTEs (full-time equivalents), is responsible for:

- licensing residential builders and building envelope renovators province-wide
- monitoring the performance of the third-party home warranty insurance system underwritten by the private sector
- carrying out research and education which benefits the residential construction industry and consumers, and
- administering financial assistance programs for owners of leaky homes in the form of the Reconstruction Loan Program and the Province's PST Relief Grant Program.

Where We Are

The HPO is located in downtown Vancouver and has field staff assigned to various territories across the province to ensure compliance with the *Act* and regulations and to maintain our partnership with municipalities and regional districts.

Who We Serve

The HPO serves buyers of new homes and people arranging for new homes to be built, homeowners (particularly owners of homes covered by home warranty insurance and owners of leaky homes), developers, residential builders and building envelope renovators. In undertaking its activities the HPO also works closely with warranty providers, building officials, industry and related consumer associations, governments including local governments and Canada Mortgage and Housing Corporation, educational institutions, research organizations, architects, engineers, financial institutions, strata managers, the legal community and the real estate community.

Benefits Provided to the Public

Through the delivery of its programs, the HPO helps ensure that buyers of new homes benefit from ongoing improvements in the quality of residential construction and are protected from construction defects.

Owners of leaky homes have access to information that assists in the process of managing repairs and eligible owners have access to financial assistance to ensure that they do not have to lose their homes to foreclosure due to the cost to repair premature building envelope failure.

Consumer satisfaction is regularly measured through surveys conducted by an independent research firm on behalf of the HPO.

Our Strategic Foundation

The HPO's strategic foundation is in keeping with the mandate of the *Act*.

Our Vision: A professional organization that directly acts to enable a robust and respected residential construction industry in which consumers have confidence and industry partners have the ability to thrive.

Our Mission: To protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.

Our Values: We are guided by our commitment to:

- fairness
- competence
- common ground, and
- usefulness.

corporate governance

Department Responsibilities

Research and Education	Licensing	Loans	Finance and Administration	Communications
Building science research Consumer/industry education and training Dissemination of research results and support of establishing "best practices" Provision of input and advice on amendments to the building code	Licensing of residential builders and building envelope renovators Maintenance of registry of licensed builders and building envelope renovators Administration of the *Homeowner Protection Act* and regulations as they pertain to residential builder licensing, home warranty insurance and exemptions for residential construction Collection of license fees	Delivery of the Reconstruction Loan Program Administration of the PST Relief Grant Program Participation at on-site strata meetings to provide information on financial assistance programs	Financial reporting Human resources Information systems Administration of the Office Budgetary planning and expenditure control	Issues management, communications planning and media relations Development and implementation of strategies for consumer and industry communications Management of information line, website, events and publications Support for HPO's education mandate Development of Annual Report and Service Plan

[1] The Board is appointed by the Lieutenant Governor in Council and is responsible for the governance of the HPO. The Board monitors performance during the year through regular board meetings including status reports, on-going interaction with the residential construction industry and the Provincial Advisory Council on Homeowner Protection as well as independent surveys.
[2] Member of the Audit and Finance Committee which assists the Board in fulfilling its fiduciary and oversight responsibilities relating to financial reporting and the audit process.
[3] Member of the Governance Committee which conducts the CEO's performance evaluation and recommends the implementation strategy for the Best Practice Guidelines for governance.
[4] The Provincial Advisory Council on Homeowner Protection provides policy advice to the HPO CEO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The council includes representatives from the following organizations:

Architectural Institute of B.C.	Condominium Home Owners' Association	Building Officials Association of B.C.
B.C. Construction Association	Co-operative Housing Federation of B.C.	Independent Contractors and Businesses Association of B.C.
Union of British Columbia Municipalities	City of Vancouver	
Canadian Home Builders' Association of B.C.	Home warranty insurance provider	B.C. Federation of Labour – 2 representatives
Association of Professional Engineers and Geoscientists	Urban Development Institute	

The Homeowner Protection Office complies, as appropriate, with the Board Resourcing and Development Office's *Best Practice Guidelines for Governing Boards of the BC Public Sector Organizations*. The HPO's Board of Directors Governance Manual can be found on the "HPO Overview" page of our website at www.hpo.bc.ca.

report on performance – Business Areas and Outputs

Licensing and Home Warranty Insurance

The Homeowner Protection Office (HPO) is responsible for:

- licensing residential builders and building envelope renovators
- monitoring the performance of the mandatory, third-party home warranty insurance system for new construction and building envelope renovations, and
- ensuring that all new homes built in the province are either covered by home warranty insurance or eligible for an appropriate exemption.

The system administered by the HPO establishes a solid foundation for the protection of owners of new homes and the improvement of residential construction in British Columbia. More than 35,000 new homes were enrolled with mandatory home warranty insurance as of the end of this fiscal year.

Licensing

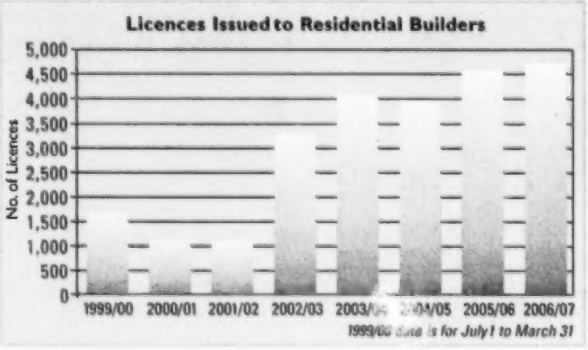
Residential builders must be licensed by the HPO and arrange for home warranty insurance in order to obtain a building permit (or prior to commencing construction in non-permit areas of the province). This fiscal year has seen more residential builders become licensed in the province than any previous year.

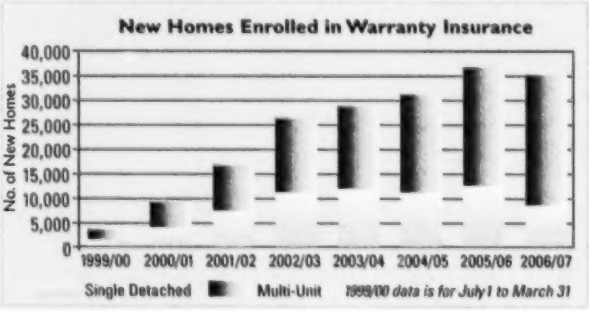
Building envelope renovators are also required to be licensed by the HPO and provide home warranty insurance on building envelope renovations for multi-unit residential buildings not more than 25 years old where those renovations exceed a specified dollar value and percentage of building face repaired.

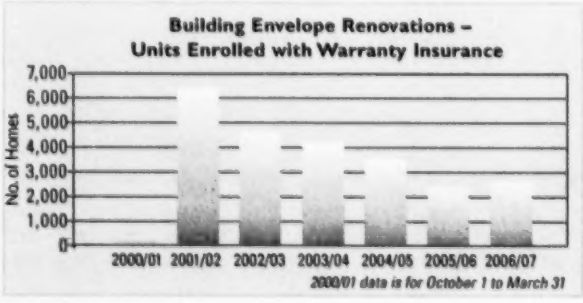
A searchable registry of Licensed Residential Builders and building envelope renovators is available to the public on the HPO website.

2006/07 Licensing and Warranty Insurance Highlights
as of March 31, 2007

- 4,739 licences issued to residential builders (new and renewal)
- 35,034 new homes enrolled in home warranty insurance
- 4,073 owner-builder exemptions (single detached homes) issued
- 1,466 units with rental warranty exemptions (multi-unit)
- 61 licences issued to building envelope renovators (new and renewal)
- 2,793 building envelope renovations with home warranty insurance (units)







report on performance – Licensing and Home Warranty Insurance (continued)

Home Warranty Insurance

Regulations under the *Act* set out minimum standards of home warranty insurance coverage for new home construction and residential building envelope renovations. All new homes constructed by Licensed Residential Builders are required to be covered by the strongest construction defect warranty in Canada, comprising 2 years on labour and materials (some limits apply), 5 years on the building envelope including water penetration and 10 years on the structure of the new home (collectively known as 2-5-10 year home warranty insurance).

Minimum standards of home warranty insurance for applicable residential building envelope renovations include 2 years on labour and materials and 5 years on the building envelope including water penetration.

Licensed Residential Builders work in partnership with their home warranty insurance providers to give warranty service to owners of new homes. However, the policy of home warranty insurance is ultimately the responsibility of the home warranty insurance provider, ensuring a high level of protection for owners of new homes in the event that the builder is no longer in business or does not respond to valid claims made by the consumer.

Home warranty insurance may only be provided by insurance companies approved and regulated by the Financial Institutions Commission. As of March 31, 2006 there were four companies offering home warranty insurance in British Columbia. The HPO maintains regular contact with these insurance companies and their agents/brokers, in order to communicate concerns, share information, work on streamlining and standardizing processes, and generally ensure that home warranty insurance is a viable and effective system for consumers, builders, and insurance companies alike.

Summary of New Homes Enrolled in Warranty Insurance and Warranty Exemptions, 2006/07

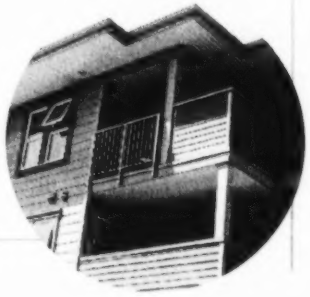
Category of New Home		Number of Homes
Homes with Warranty Insurance[1]	Single Detached Homes	10,408
	Homes in Multi-Unit Buildings (two or more units)	24,626
	Total	**35,034**
Homes with Warranty Exemptions[2]	Single Detached (owner-built homes)[3]	4,073
	Multi-unit Rentals	1,466
	Total	**5,539**

[1] New homes enrolled include homes for which the HPO has received verification from the home warranty insurance company that warranty insurance is in place. Note that minor adjustments may be made to these figures over time as the verification of new enrollments from home warranty insurance companies is received by the HPO on an ongoing basis.

[2] Owner-built homes are not required to have home warranty insurance (although home warranty insurance may be purchased by the owner-builder if desired), but are subject to the 10-year Statutory Protection provisions of the *Homeowner Protection Act*. Homes constructed under the multi-unit rental exemption must be constructed for rental purposes and register a restrictive covenant on title restricting the sale of any dwelling unit for a ten-year period.

[3] The number of owner-builder exemptions issued is expressed as the number of Owner Builder Declaration and Disclosure Notices that have been verified for eligibility and issued to the owner-builder by the Homeowner Protection Office. This form must then be completed and presented to the municipality by the owner-builder when applying for a building permit (or completed and returned to the HPO if the proposed owner-built home is in an unincorporated area). It is estimated that 10-15% of owner-builder exemptions issued are not acted upon by the individual.

The HPO is located in downtown Vancouver and has field staff assigned to various territories across the province to ensure compliance with the *Homeowner Protection Act*.



report on performance –
Licensing and Home Warranty Insurance (continued)

Owner-built homes and purpose-built rentals

The *Act* defines an owner-builder as an individual who builds a detached home for their own personal use. An owner-builder is neither required to be licensed nor to arrange for home warranty insurance. Owner-builders are subject to the statutory protection provisions of the *Act* to ensure a minimum level of consumer protection, if the house is sold within the first ten years. An owner-builder who sells their home during this period is personally liable to subsequent purchasers that the home is reasonably fit for habitation, built from materials of good quality, and designed and constructed with ordinary competence, care and skill.

One other exemption from home warranty insurance provided by the HPO under the authority of regulation is an exemption for multi-unit residential buildings built for rental purposes only (including social housing). The building must be built by a Licensed Residential Builder and the owner must register a covenant on title restricting sale of any individual units in the buildings for a period of 10 years following occupancy.

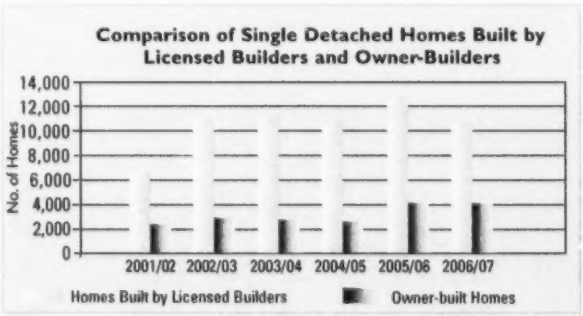
Compliance

Administering the *Act* involves significant compliance efforts on the part of the HPO, ensuring that individuals and companies required to be licensed under the legislation are licensed and that new homes are all covered by home warranty insurance unless they are legally entitled to an exemption. Most compliance with the *Act* is sought and obtained on a voluntary basis, but where necessary, the HPO submits cases to Crown Counsel to consider for prosecution. The HPO may also pursue court-ordered injunctions to prevent the sale of new homes that are not covered by home warranty insurance, to halt construction of new homes that are not covered by home warranty insurance or new homes that are under construction by unlicensed builders.

A significant portion of HPO staff time is currently spent reviewing and monitoring owner-builder exemptions to ensure that individuals actually in the business of home-building are not abusing the exemption to avoid licensing and home warranty insurance requirements put in place to protect consumers. In addition to ensuring adequate protection is in place for owners of new homes, these compliance efforts provide a more level playing-field for residential builders.

Compliance efforts also include ensuring that licensed residential builders renew their licences in a timely manner, remain in good standing with warranty providers and enroll new homes in home warranty insurance. Sometimes homes that are originally enrolled in home warranty insurance are subsequently de-enrolled for a variety of reasons, including the builder no longer continuing with the contract or failing to meet the requirements of the home warranty insurance provider. When de-enrollment occurs construction must cease and the project must be enrolled again before construction on the home re-commences. HPO staff follows up with de-enrollments to ensure that owners and future purchasers have a policy of home warranty insurance upon completion of the new home.

HPO staff work closely and cooperatively with municipalities and regional districts throughout British Columbia to ensure that building permits are not issued and construction does not commence or continue without proof of home warranty insurance or an applicable exemption.



report on performance – Business Areas and Outputs

Research and Education

The Homeowner Protection Office's (HPO) research and education initiatives support the mandate of the *Homeowner Protection Act (Act)* by:

- supporting the conduct and dissemination of research related to the continuous improvement in the quality of residential construction
- facilitating the use of research in the development and application of best practices and standards.

Initiatives are also aimed at providing education and information for consumers, particularly for buyers of new homes and strata councils. The HPO partners with industry, consumer groups, educational institutions and other levels of government to leverage additional resources and expertise for these initiatives.

Building Industry Research and Education

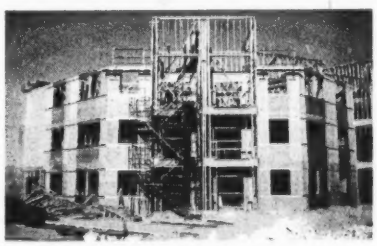
The HPO works with industry and other partners to bring about efficient and cost-effective building science research and education which is both current and relevant to the residential construction industry. These initiatives help to ensure that new technologies and good building practices are appropriately integrated into industry practice and reduce the likelihood of negative impacts on the building envelope or other components.

The HPO also supports industry associations and organizations to strengthen their professional programs in residential construction.

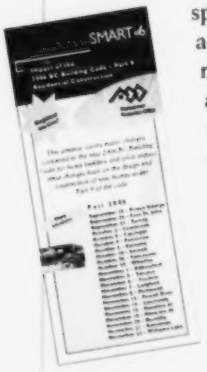
In support of this *Raising the Bar* initiative, the HPO provided funding towards the Canadian Home Builders' Association of BC's project to update and enhance their builder courses, including courses on construction law, the building code and project management. Funding was also provided to the Residential Construction Industry Training Organization towards the development of their Building Envelope Technician program.

2006/07 Building Industry and Education Highlights
as of March 31, 2007

- Two Building Smart seminars were developed and delivered, including:
  - "EnerGuide Demystified" held at 21 locations across B.C. with 700 participants, and
  - "Impact of the 2006 BC Building Code – Part 9 Residential Construction", held at 25 locations across B.C. with over 2,900 participants
- Two *Builder Insight* technical bulletins were published
- The following research projects are underway:
  - Effects of green building rating systems on the durability of the building envelope, in partnership with Canada Mortgage and Housing Corporation (CMHC)
  - Best Practice Guide on Windows, in partnership with CMHC and Natural Resources Canada
  - Investigation of Indoor Humidity Control via Mechanical Ventilation in Coastal/Maritime Climates in Multi-Unit Residential Buildings, in partnership with CMHC
  - Field Measurement of Wind-Driven Rain on Buildings in B.C.'s Coastal Climate, in partnership with British Columbia Institute of Technology (BCIT), CMHC and BC Housing
- The following research projects were completed in 2006/07:
  - Field Investigations on the Application of ACQ Treated Wood and Use of Metal Fasteners and Connectors in Residential Construction
  - A study on the performance monitoring of rainscreen wall assemblies, in partnership with BC Housing and CMHC
  - Update of the Building Envelope Research Bibliography, in partnership with BCIT
  - Update and expansion of the HPO's existing online directory of education and training resources available in B.C., in partnership with Greater Vancouver Home Builders' Association
- HPO partnership with BC Building Envelope Council and CMHC for the 2006 Building Research Symposium - From Research to Reality
- The third biennial Consumer Satisfaction survey was carried out



report on performance –
Research and Education (continued)



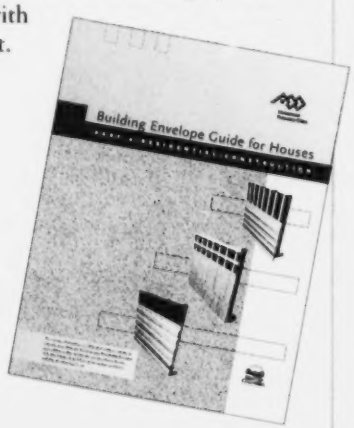
The HPO delivers *Building Smart* education seminars to Licensed Residential Builders and others in the residential construction industry during the spring and fall of each year. These seminars are the prime vehicle for disseminating research results, good building practices and information on technological changes in construction to Licensed Residential Builders involved in new house construction across the province.

In 2006/07 more than 40 sessions were delivered in communities throughout British Columbia with a total attendance of over 3,600 individuals, up from 1,700 the previous year. The spring session was titled "*Energuide Demystified*" and the fall session was "*Impact of the 2006 Building Code*". Delivery expanded to the communities of Langford, Whistler, Williams Lake and Penticton. Seminar partners included the Ministry of Energy Mines and Petroleum Resources, the Canadian Home Builders' Association of BC, the Building Policy Branch of the provincial Office of Housing and Construction Standards and the Building Officials' Association of BC. Evaluation forms completed by participants demonstrated a high level of satisfaction with the content, presenter and value for the price.

Two *Builder Insight* bulletins were published and distributed to all builders and other interested parties in the construction industry during the fiscal year, on the following topics:

- 2006 BC Building Code: Highlights of Changes for Part 9 - Residential Construction
- Poured-in-place Concrete Residential Construction: Moisture Management Strategies

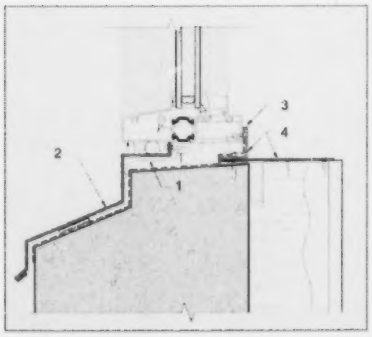
A major project initiated in 2006/07 was the development of the *Building Envelope Detail Guide for Houses: Part 9 Residential Construction.* The purpose of this guide is to support homebuilders to successfully implement new requirements under the 2006 BC Building Code and 2007 Vancouver Building By-law. This guide is co-funded with the provincial government.



report on performance –
Research and Education (continued)

The first phase of research on the compatibility of ACQ (alkaline copper quaternary) treated wood with metal fasteners and connectors was completed in 2006, and work towards a second phase of this research was initiated. The multi-year research project on monitoring of rainscreen building envelope systems in the Lower Mainland was also completed, as was the HPO's project with the British Columbia Institute of Technology's Building Science department to create an expanded and updated bibliography on building envelope research.

The first phase of research on the compatibility of ACQ (alkaline copper quaternary) treated wood with metal fasteners and connectors was completed in 2006.



Consumer Information

The HPO provides a range of consumer information to help bring about a better-informed and protected consumer. This information helps homebuyers to make more informed purchasing decisions, carry out proper maintenance of new homes and strata-titled common property, understand home warranty insurance, and be informed of HPO financial assistance programs for owners of leaky homes.

Two new consumer guides were initiated in 2006/07, including a consumer protection guide for homebuyers, and a guide on home warranty insurance in British Columbia. Work was also underway in 2006/07 for additional *Maintenance Matters* bulletins, designed to provide information on building envelope maintenance to strata owners, property/maintenance managers and strata councils.

At the request of strata councils considering their options with respect to building envelope rehabilitation, the HPO continued to attend strata council meetings to provide information on financial assistance programs for the repair of leaky homes and to meet with building envelope consultants to help interpret requirements for licensing and warranty insurance.

2006/07 Consumer Information Highlights
as of March 31, 2007

- Six presentations on *Maintenance Matters* building envelope maintenance bulletins at Condominium Home Owners' Association strata education seminars
- Participation at the Greater Vancouver Home Builders' Association's First-time Homebuyers Seminar
- 63 on-site strata meetings to provide owners with information on financial assistance programs for the repair of leaky homes
- 41,600 callers assisted through the HPO's 1-800 toll-free information line
- 358,265 website visitors obtained information on HPO programs
- Participation in 12 trade and consumer shows throughout the province

report on performance – Business Areas and Outputs

The individual circumstances of each Reconstruction Loan Program applicant is considered to determine eligibility.

Financial Assistance

The Homeowner Protection Office (HPO) offers two financial assistance programs for owners of leaky homes – the Reconstruction Loan Program and the PST (Provincial Sales Tax) Relief Grant.

Reconstruction Loan Program

The Reconstruction Loan Program was established to ensure that owners do not have to lose their homes to foreclosure due to the cost to repair premature building envelope failure. The HPO has a responsibility under the *Homeowner Protection Act* to arrange for no-interest repair loans for all eligible owners of leaky homes.

The Reconstruction Loan Program provides eligible owners with no-interest loans for the repair of leaky buildings including multi-unit as well as single detached homes. An owner could be eligible if:

- the owner does not have adequate savings or equity, or cannot qualify for a conventional loan to pay for building envelope repairs, and
- the building is no more than 25 years old and is confirmed to be "premature building envelope failure" by an architect or engineer.

In most cases, loans are arranged through the owner's mortgage lender and the owner makes monthly principal-only payments to their lender which are set at affordable rates by the HPO through one-on-one consultations with the applicant. The HPO pays the interest on the loan directly to the owner's financial institution on behalf of the owner.

In some cases, often for seniors with no existing mortgage, but on a fixed income, the HPO provides direct financing of a deferred payment loan which allows these homeowners to receive the full amount required for the repair and not have to make any payments for as long as they live in the home.

The Reconstruction Loan Program is also available to eligible housing co-operatives. Since the individual members of a housing co-operative do not hold title to their homes, no-interest repair loans are made available to the entire housing co-operative rather than to individual residents. In these cases, Canada Mortgage and Housing Corporation (CMHC) advances the funds on the housing co-operative repair loans and the HPO is committed to pay interest on the loans directly to CMHC for a period of up to 10 years.

At the request of a strata council, HPO loan officers participate in on-site strata meetings to offer information about the financial assistance programs of the HPO. Our toll-free information line (1-800-407-7757) is also available to answer general enquiries about HPO programs including financial assistance.

2006/07 Reconstruction Loan Program Highlights
as of March 31, 2007

- During the 2006/07 fiscal year 1,161 homeowner loans were approved with a total value of $52.9 million.
- The average annual homeowner loan amount of loans approved in 2006/07 was $45,598.
- Deferred payment loans represented 19% of the number of issued homeowner loans, totaling more than $8.8 million in financial assistance.
- The HPO approved eight new housing co-operative loans totaling $19.4 million. The total value of housing co-operative loans approved, including adjustments to loan amounts for 14 housing co-operatives approved from past years, was $44.0 million.
- The average per unit value of the approved housing co-operative repair loans since the program's inception was $66,967 as of March 31, 2007.
- Since the HPO's inception in 1998, 12,652 homeowner loans and 62 co-op loans (representing 3,442 units) have been approved totaling more than $647.7 million in financial assistance.

report on performance –

Financial Assistance (continued)

PST (Provincial Sales Tax) Relief Grant

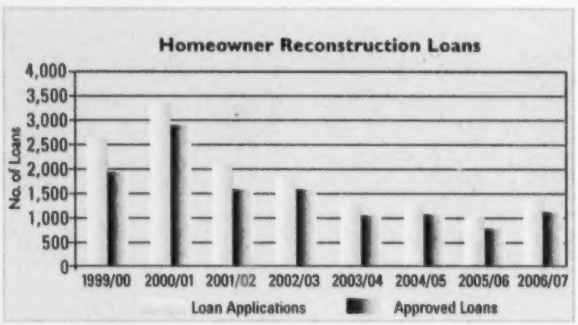
The PST Relief Grant was established to provide tax relief to owners of homes with completed building envelope repairs. The HPO delivers this program on behalf of the Province.

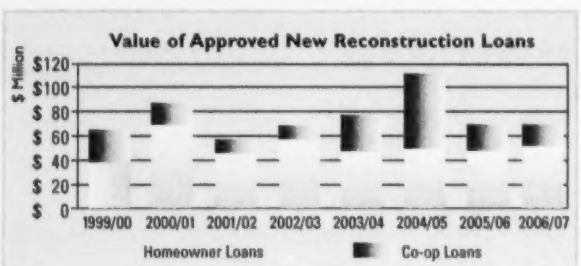
This program provides a rebate on the approximate cost of the Provincial Sales Tax on the repair. About 40% of the repair cost is usually subject to Provincial Sales Tax. Multi-unit buildings as well as single detached homes are eligible under the program. Strata councils apply for the grant on behalf of all owners in the case of multi-unit, strata-titled homes.

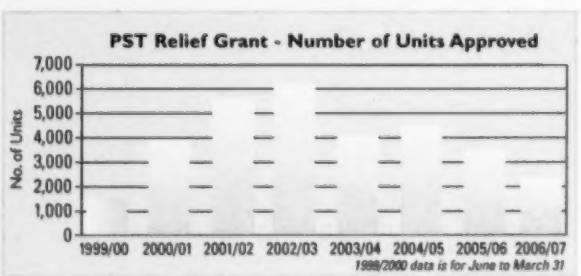
2006/07 PST Relief Grant Highlights
as of March 31, 2007

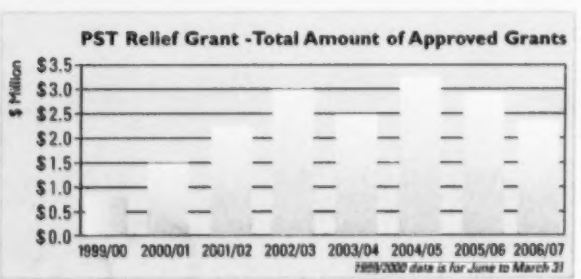
- 50 applications representing 2,323 homes were approved for PST Relief Grants totaling $2.3 million.
- Since the PST Relief Grant was introduced in 1999, $18.5 million in grants to owners in 31,997 homes have been approved with an average grant per home of $578.

The Reconstruction Loan Program is also available to eligible housing co-operatives.









performance measures, targets and results

This section reports on the performance of the Homeowner Protection Office (HPO) relative to the performance measures and targets identified for the 2006/07 fiscal year contained in the 2006-2009 Service Plan. Measures include satisfaction and awareness levels as well as indicators of effectiveness and responsiveness in various program areas. Historical results are presented along with benchmark performance of similar organizations or published industry averages where available.

The focus of this report is on performance for 2006/07. Future targets for the three-year period of 2007/08 to 2009/10 are also shown for convenience to provide information on performance expectations, with the 2009/10 targets drawn from the 2007-2010 Service Plan. More information on the performance measures appears at the end of this section.

A summary of the HPO's strategic mission, goals, objectives and performance measures is shown on page 15. The five goals of: 1) professionalization of the residential construction sector, 2) informed and protected consumers, 3) continued viability of the home warranty insurance system, 4) become a strategic centre for building industry research and 5) an aligned, focused and capable organization were identified in 2004 by the Board of Directors as the key strategic thrusts to ensure that the HPO is delivering on its responsibilities under the *Homeowner Protection Act*.

Summary of Results

The 2006-2009 Service Plan sets out 15 performance targets for 2006/07. A summary of the results is presented below.

Performance target met or exceeded:

- Recovery of home values following building envelope renovations
- Research results and best practices disseminated through symposiums, seminars or workshops
- Research results incorporated into building standards and best practices
- Timeliness of licensing decisions on completed license applications
- Timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program

Progress was made towards meeting the target:

- Homebuyer awareness of consumer protections under the *Homeowner Protection Act*
- Reconstruction Loan default rate
- Resources leveraged by the HPO through other funding partners

Target not met:

- Homeowner satisfaction with home warranty insurance
- Homeowner satisfaction with the quality of home construction
- Homeowner satisfaction with the building process
- Percentage of homes built under the *Homeowner Protection Act* with warranty insurance claims is within industry norms

Performance not measured in 2005/06:

- Builder satisfaction with the licensing system
- Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption
- Builders' ratings of their overall relationship with their warranty provider

Data for the five performance measures not measured in 2006/07 is gathered through the biennial builder survey that was last carried out in 2005/06. These measures will be reported in next year's annual report.

Summary of HPO Mission, Goals, Objectives and Performance Measures

Mission Statement

Protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.

	1	2	3	4	5
Goals	**Professionalization of the residential construction sector**	**Informed and protected consumers**	**Continued viability of the home warranty insurance system**	**Become a strategic centre for building industry research**	**An aligned, focused and capable organization**
Objectives	"Raise the bar" for Licensed Residential Builders Address black-market building Seek authority for administrative penalties and compliance orders Better perform gate-keeping duties More information on pubic registry	Increase communications and education initiatives Established standard of information for consumers Owners of leaky homes do not have to lose their homes	Ensure the availability, affordability and effectiveness of home warranty insurance Ensure home warranty is in place where coverage is required	Conduct and disseminate results on research related to continuous improvement in the quality of residential construction Facilitate the use of research in the development and applications of best practices	Ensure HPO remains lean, agile, rigorous and resourced
Performance Measures	Builder satisfaction with the licensing system Builders' rating of the effectiveness of the HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption	Homebuyer awareness of consumer protections under the *Homeowner Protection Act* Homeowner satisfaction with home warranty insurance Homeowner satisfaction with the quality of home construction Homeowner satisfaction with the building process Recovery of home values following building envelope renovations Reconstruction Loan default rate	Percentage of homes enrolled in warranty insurance with claims within industry norms Builder rating of their overall relationship with their warranty provider Homeowner satisfaction with the home warranty insurance on their home	Research results and best practices disseminated through symposiums, seminars or workshops Research results incorporated into building standards and best practices Resources leveraged by the HPO through other funding partners	Timeliness of licensing decisions on completed licence applications Timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program

performance measures, targets and results

Goal One: Professionalization of the Residential Construction Sector

Builder Satisfaction with the Licensing System

Year	Target	Actual
2003/04	Collect baseline data	83%
2004/05	Not surveyed	–
2005/06	88% or higher builder satisfaction	87%
2006/07	**Not surveyed**	**–**
2007/08	90% or higher builder satisfaction	
2008/09	Not surveyed	
2009/10	90% or higher builder satisfaction	

This measure tracks Licensed Residential Builder satisfaction with the HPO licensing system. Baseline data was obtained through a 2003/04 survey of all Licensed Residential Builders in the province (see note on page 27 for a further description of this survey). The second biennial builder survey was carried out in 2005/06.

The 2005/06 survey found that 87% of Licensed Residential Builders were very or somewhat satisfied with the HPO licensing system. Sub-components of satisfaction tracked include:

- 82% satisfaction with the rules/requirements
- 88% satisfaction with the application process
- 87% satisfaction with the renewals process, and
- 91% satisfaction with timeliness of licensing decisions.

Result: Performance not measured in 2006/07; will be reported in 2007/08.

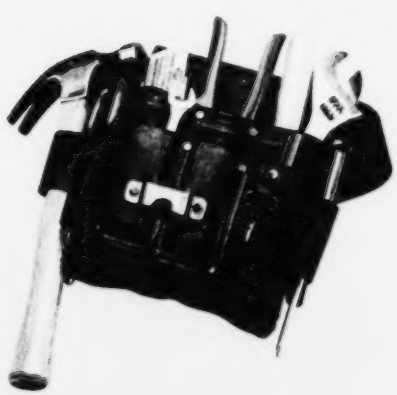
Builders' Rating of the Effectiveness of the HPO's Compliance Efforts to Monitor and Enforce Licensing and Home Warranty Insurance Requirements and the Owner-Builder Exemption

Year	Target	Actual
2003/04	Collect baseline data	72%
2004/05	Not surveyed	–
2005/06	75%	70%
2006/07	**Not surveyed**	**–**
2007/08	75%	
2008/09	Not surveyed	
2009/10	77%	

Data for this measure is obtained through the biennial licensed builder survey which tracks builders' rating of the effectiveness of the HPO's efforts to monitor and enforce compliance with the mandatory builder licensing and home warranty insurance requirements, and the owner-builder exemption provisions of the *Act*.

The 2005/06 survey of Licensed Residential Builders found that 70% of builders felt that the HPO's compliance efforts were very or somewhat effective, and 30% felt that they were ineffective. This result falls below the target of 75%.

Result: Performance not measured in 2006/07; will be reported in 2007/08



performance measures, targets and results

Goal Two: Informed and Protected Consumers

Homebuyer Awareness of Consumer Protections Under the Homeowner Protection Act

Year	Target	Actual
2002/03	Collect baseline data	73% awareness of builder licensing 45% awareness of home warranty insurance
2003/04	Not surveyed	–
2004/05	80% for licensing 55% for home warranty insurance	69% awareness of builder licensing 52% awareness of home warranty insurance
2005/06	Not surveyed	–
2006/07	**80% awareness of builder licensing** **60% awareness of home warranty insurance**	**74% awareness of builder licensing** **55% awareness of home warranty insurance**
2007/08	Not surveyed	
2008/09	90% awareness of builder licensing 70% awareness of home warranty insurance	
2009/10	Not surveyed	

This measure tracks prospective homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Data is obtained through a biennial consumer survey. (See note on page 27 for further description of the consumer survey).

In 2006/07 the level of awareness of builder licensing among homebuyers increased to 74% from 69% two years earlier. Similarly, the level of awareness of home warranty insurance increased to 55% from 52% in 2004/05. The level of awareness was found to be higher in the Greater Vancouver area compared to other regions of the province.

Result: Progress made towards meeting the target.

The result indicates the need to communicate information effectively on the licensing and home warranty insurance systems to consumers. The planned release of two consumer information guides in 2007/08, along with strategic partnerships with the industry to promote the distribution of the guides, is expected to have a positive impact on consumer awareness levels.

Homeowner Satisfaction with Home Warranty Insurance

Year	Target	Actual
2002/03	Collect baseline data	83%
2003/04	Not surveyed	–
2004/05	85%	80%
2005/06	Not surveyed	–
2006/07	**85%**	**77%**
2007/08	Not surveyed	
2008/09	90%	
2009/10	Not surveyed	

This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new homes.

In 2006/07 the majority of new homeowners, 77% continue to be very to somewhat satisfied with the protection provided by their warranty insurance. The proportion is similar to the 80% reported in 2004/05. Satisfaction levels were higher among owners of multi-unit homes at 80% compared to 71% for owners of single detached homes. Owners who have encountered a problem with their home are not as satisfied with their warranty insurance (69% satisfied) compared to those who have not had a problem (85% satisfied). Interestingly, there was no difference in the level of satisfaction among owners who have lived in their home for two or more years compared to those who have lived in their home for less than two years.

Result: Target not met; relatively consistent level of homeowner satisfaction with home warranty insurance compared to two years ago and a moderate downward trend over the three surveys.

The variation between the actual result and the target may be partially explained by the larger portion of homeowners in the survey sample with policies at all years of coverage which includes, at a minimum, 2 years on material and labour, 5 years on building envelope and 10 years on structure. The initial and second biennial survey would have included homeowners who were at the initial years of coverage.

performance measures, targets and results

Goal Two: Informed and Protected Consumers (continued)

Homeowner Satisfaction with the Quality of Home Construction

Year	Target	Actual
2002/03	Collect baseline data	93%
2003/04	Not surveyed	–
2004/05	Target not established (new measure)	91%
2005/06	Not surveyed	–
2006/07	**95%**	**90%**
2007/08	Not surveyed	
2008/09	95%	
2009/10	Not surveyed	

This measure tracks the satisfaction with the quality of home construction among owners with warranty insurance on their home. Data is obtained through a biennial consumer survey. As a new measure introduced in 2004/05, targets have been established commencing in 2006/07.

Consistent with 2004/05 results, 90% of homeowners in 2006/07 report being satisfied with the quality of construction of their homes. Specifically, 54% are very satisfied and 36% somewhat satisfied in 2006/07 for a satisfaction rate of 90%. There is a fair degree of consistency in the level of satisfaction among owners of single detached versus multi-unit homes, while first-time buyers tend to show a lower level of satisfaction.

Result: Homeowner satisfaction with the quality of home construction is largely unchanged.

Given the consistent results over time, the current target of 95% satisfaction may be unrealistic, and it will be reassessed for the purposes of the 2008-2011 Service Plan.

Homeowner Satisfaction with the Building Process

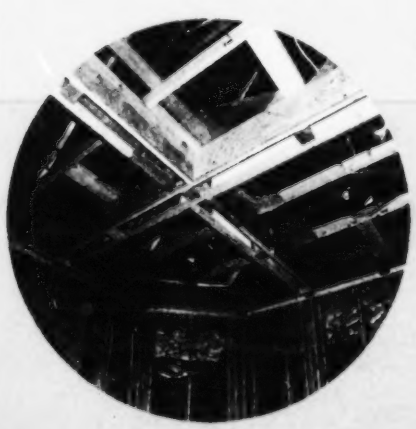
Year	Target	Actual
2004/05	Collect baseline data	83%
2005/06	Not surveyed; establish target	–
2006/07	**88%**	**81%**
2007/08	Not surveyed	
2008/09	90%	
2009/10	Not surveyed	

This measure tracks the satisfaction levels with the building process among homeowners with warranty insurance, specifically owners of custom-built homes or homes purchased on a pre-sale basis. Data for this measure is obtained through a biennial consumer survey. Baseline data was collected in the 2004/05 consumer survey.

Overall, 81% of homeowners were very or somewhat satisfied with the building process in 2006/07. This ranges from 74% satisfaction among homeowners who purchased a spec. home on a pre-sale basis, to 97% satisfaction among homeowners who had their home custom built by a licensed builder. Further breakdown of the results include:

- 82% satisfaction overall with cost and budgeting
- 72% satisfaction with contractor/builder/developer, and
- 67% satisfaction with time it took to build the home.

Result: Homeowner satisfaction with the building process is largely unchanged.



Performance measures, targets and results

Goal Two: Informed and Protected Consumers (continued)

Recovery of Home Values Following Building Envelope Renovations

Year	Target	Actual
2002/03	Collect baseline data	51%
2003/04	50% or more	74%
2004/05	60% or more	91%
2005/06	80% or more	97%
2006/07	**95% or more**	**99%**
2007/08	95% or more	
2008/09	95% or more	
2009/10	95% or more	

This measure tracks the improvement in assessed values of homes following the completion of building envelope repairs. It is calculated as the percentage of homes that have recovered values equal or greater than the cost of repairs in the assessed values of their homes.

In 2006/07, 99% of homes recovered assessed values equal to or more than the cost of building envelope repairs. This exceeds the target of 95% or more, and is an increase from the previous year when 97% of homes had recovered this amount, reflecting continued housing demand and a continued rise in assessed values of homes.

Among the home values analyzed for this measure, the average pre-repair price had risen from $114,648 to $250,505 post-repair. The analysis is based on 2006 assessed values and includes nearly 10,000 homes in 557 buildings with completed building envelope renovations under the Homeowner's Reconstruction Loan Program since 1998.

Result: Target met.

Reconstruction Loan Default Rate

Year	Target	Actual
2002/03	4% or less	1.8%
2003/04	4% or less	1.8%
2004/05	1% or less	1.8%
2005/06	1% or less	1.7%
2006/07	**1.5% or less**	**1.6%**
2007/08	1.5% or less	
2008/09	1.5% or less	
2009/10	1.5% or less	

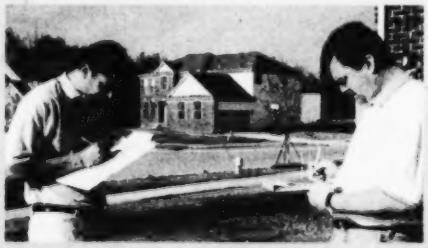
This measure tracks the effectiveness of the Reconstruction Loan Program in helping to ensure that homeowners do not have to lose their homes as a result of building envelope repair costs. It compares the number of Reconstruction Loans in default to the total number of loans issued in the program. Data is obtained through the HPO loans database.

The Reconstruction Loan Program provides no-interest loans to owners of leaky homes who would not otherwise be able to obtain financing or pay for repair costs related to premature building envelope failure, e.g., may be experiencing an overall high debt to equity ratio.

The actual default rate of 1.6% in 2006/07 is slightly higher than the target rate of 1.5%, and represents an improvement over last year's rate of 1.7%.

The Reconstruction Loan Program default rate was higher than the default rate of all residential loans or mortgages for B.C. and Canada at 0.15% and 0.25% respectively as of December 2006 (Source: Canadian Bankers Association). This reflects the more difficult financial situation associated with recipients of the HPO's Reconstruction Loans as compared to housing loans in general.

Result: Progress made towards meeting the target.



performance measures, targets and results

Goal Three: Continued Viability of the Home Warranty Insurance System

Percentage of Homes Built Under the Homeowner Protection Act with Warranty Insurance Claims is within Industry Norms

Year	Target	Actual
2002/03	Collect baseline data	5%
2003/04	Not surveyed	–
2004/05	5% or less	4%
2005/06	4% or less	–
2006/07	**3% or less**	**6%**
2007/08	3% or less	
2008/09	3% or less	
2009/10	3% or less	

This measure is intended to compare the number of claims made by homeowners under their home warranty insurance policies to the number of homes enrolled during the specified period. (See note on page 28 for a description of warranty insurance claims).

Results from the biennial consumer survey have been used as proxy data for this measure, specifically the percentage of homeowners who indicated that they have experienced a problem with their home's workmanship, materials or structure, and who involved their warranty insurance company in resolving the problem.

The 2006/07 consumer survey found that 6% of homeowners involved their warranty provider in resolving a problem with their home. This rate is higher than the target of 3% or less.

Benchmark data from new home warranty organizations elsewhere in Canada has been researched. In 2006, the Alberta New Home Warranty Program experienced a conciliation incidence rate per enrollment calculated at 1.9%, based on 540 requests for conciliation and 29,022 enrollments (22,871 single detached and 6,151 multi-unit).

Tarion Warranty Corporation (formerly known as the Ontario New Home Warranty Program) reported that the number of homes with conciliations/claim inspections[1] in 2005 totaled 4,104 for 73,733 new home enrollments (including freehold and condominium units) for a calculated conciliation/claim inspections rate of 5.7%.

In 2006, the New Home Warranty Program of Saskatchewan reported conciliations per enrollment at 0.96% and a claims rate calculated at 2.9% based on 1,868 homes enrolled.

[1] Unlike the *Homeowner Protection Act* in B.C., the Ontario New Home Warranties Plan Act 1976 legislates a system whereby homebuyers are protected by a mandatory builder's warranty obligation. A homeowner may request a conciliation if they believe that the builder is not honouring their obligation.

A conciliation involves a meeting with the homeowner, builder and Tarion Warranty representative to determine whether the items at issue are covered under the terms of the builder's warranty. If a builder fails to abide by the results of a conciliation, the owner can submit a claim to Tarion for a breach of warranty.

Result: Target not met.

The variation between the actual result and the target may reflect the reliance on proxy data from the consumer survey which may have a high degree of unreliability when reporting actual claims. The HPO is working with home warranty insurance providers to obtain summary claims statistics for improved future reporting of this performance measure.

performance measures, targets and results

Goal Three: Continued Viability of the Home Warranty Insurance System (continued)

Builder Rating of their Overall Relationship with their Warranty Provider

Year	Target	Actual
2003/04	Collect baseline data	87%
2004/05	Not surveyed	–
2005/06	90%	84%
2006/07	**Not surveyed**	**–**
2007/08	92%	
2008/09	Not surveyed	
2009/10	92%	

This measure tracks Licensed Residential Builders' ratings of their overall relationship with their warranty providers. Data for this measure is obtained through a biennial builder survey.

In 2005/06, 84% of builders felt they had a good or excellent relationship with their warranty provider. Specifically 34% of builders rate the relationship as excellent and 50% rate it as good.

These results represent a slight decline over the result of 87% two years earlier, and falls below the target of 90%.

Subcomponents of this measure includes:

- 70% rate handling of complaints or claims from consumers as excellent or good,
- 37% rate cost of warranty insurance as excellent or good, and
- 75% rate ease of application process for coverage as excellent or good.

Result: Performance not measured in 2006/07; will be reported in 2007/08.

Homeowner Satisfaction with Home Warranty Insurance

Year	Target	Actual
2002/03	Collect baseline data	83%
2003/04	Not surveyed	–
2004/05	85%	80%
2005/06	Not surveyed	–
2006/07	**85%**	**77%**
2007/08	Not surveyed	
2008/09	90%	
2009/10	Not surveyed	

This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new homes. Data is obtained through a biennial consumer survey.

In 2006/07 the majority of new homeowners, 77% continue to be very to somewhat satisfied with the protection provided by their warranty insurance. The proportion is similar to the 80% reported in 2004/05. Satisfaction levels were higher among owners of multi-unit homes at 80% compared to 71% for owners of single detached homes. Owners who have encountered a problem with their home are not as satisfied with their warranty insurance (69% satisfied) compared to those who have not had a problem (85% satisfied). Interestingly there was no difference in the level of satisfaction among owners who have lived in their home for two or more years compared to those who have lived in their home for less than two years.

Result: Target not met.

The variation between the actual result and the target may be explained, in part, by a larger portion of homeowners in the survey sample having policies at all years of coverage which includes, at a minimum, 2 years on material and labour, 5 years on building envelope and 10 years on structure. The initial and second biennial survey would have included homeowners who were at the initial years of coverage.

Data is obtained through a biennial consumer survey.

performance measures, targets and results

Goal Four: Become a Strategic Centre for Building Industry Research

Research Results and Best Practices Disseminated Through Symposiums, Seminars and Workshops

Year	Target	Actual
2000/01-2001/02	During this 2 year cycle, 1 major symposium or publication and 12 educational sessions.	The HPO and its partners presented B.C.'s first 1-day Building Envelope Research Symposium profiling all HPO research projects carried out to date.
2002/03-2003/04	During this 2 year cycle, 1 major symposium or publication and 20 educational sessions.	The HPO funded research profiled at 19 industry educational sessions which included the first five sessions of *Building Smart*: "*Avoiding Moisture Problems in Houses*" seminar.
2004/05-2005/06	One major symposium or publication and over 20 educational sessions delivered.	The HPO held 52 Building Smart education seminars during this 2-year period. Major partner for the *Innovations in Building Science Symposium* in May/04. Release of the Research Report on Poured-in-place Concrete Wall Performance in Coastal B.C. in partnership with CMHC in 2005.
2006/07	**One major symposium or publication and over 20 educational sessions delivered.**	**The HPO delivered more than 40 *Building Smart* education seminars during the period.** **The HPO was a major partner for the *From Research to Reality Building Science Symposium* in May/06.** **Findings from 5 HPO-funded research projects were presented at the 11th National Conference on Building Science in Banff.** **Two research reports were published.**
2007/08	One major symposium or publication and over 20 educational sessions delivered.	
2008/09	One major symposium or publication and over 20 educational sessions delivered.	
2009/10	One major symposium or publication and over 20 educational sessions delivered.	

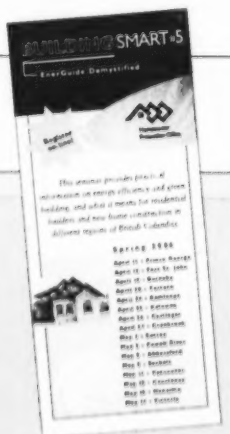
This measure focuses on the HPO's role in disseminating research results and helping to support the integration of new technologies and best practices in the industry through participation in major research publications, symposia, and the delivery of educational sessions or workshops.

Participant evaluation of the Building Smart education seminars is consistently high. For *Building Smart #6 – Impact of the 2006 BC Building Code–Part 9 Residential Construction*, participant ratings are as follows:

- Usefulness of information presented: 4.6 out of 5
- Scope and relevance of materials appropriate: 4.4 out of 5, and
- Knowledge and effectiveness of presenter: 4.8 out of 5.

The HPO is the secretariat and participant of the Building Research Committee of the B.C. Building Envelope Council, and is represented on national, provincial and local Canadian Homebuilder technical and education & training committees.

Result: Target met.



performance measures, targets and results

Goal Four: Become a Strategic Centre for Building Industry Research (continued)

Research Results Incorporated into Building Standards and Best Practices

Year	Target	Actual
2002/03	HPO participation on National Building Code committees and in development of best practices and training courses	HPO representative on National Building Code Standing Committees (2) on Houses and Environmental Separation, and CSA Strategic Steering Committee on Building Products and Systems.
2003/04	Participation in federal and provincial processes to update the current building code and to develop best practices and training courses.	Continued involvement on building code and CSA committees. In addition as a follow-up to the research on water penetration resistance of windows, the HPO entered into a partnership to co-fund the development of a best practice guide on windows.
2004/05	Participation in federal and provincial processes to update the current building code and to develop best practices and training courses.	Continued involvement in the committees noted above. Continued partnership with CMHC and Natural Resources Canada on the development of the Windows Best Practice Guide. Collaboration with provincial Building Policy Branch regarding release of the 2006 building code. Building Smart educational sessions presented building officials educational conferences.
2005/06	Participation in federal and provincial processes to update the current building code and to develop best practices and training courses.	As above
2006/07	**As above**	**As above. In addition:** • **Participation on national Task Group on Proposed Harmonization of Window Standards for the 2010 national building code.** • **Collaboration with provincial Building Policy Branch in development of *Building Envelope Guide for Houses* publication.** • **Partnership with Building Policy Branch and Building Officials' Association of BC on delivery of *Building Smart* educational sessions.** • **Release of *Builder Insight* bulletin on poured-in-place concrete high-rise construction.**
2007/08	As above	
2008/09	As above	
2009/10	As above	

This measure looks at the effectiveness of the HPO in helping to ensure that the results of research projects are incorporated into standards, codes and best practices.

The performance measure tracks the HPO's participation on national and provincial code committees, and involvement in the development and promotion of best practices and training courses.

Major initiatives in 2006/07 pertained to work carried out towards the development of the Building Envelope Guide for Houses publication, prompted by new provisions contained in the 2006 BC Building Code and 2007 Vancouver Building By-law, as well as the publication of a *Builder Insight* bulletin on moisture management strategies on poured-in-place, high-rise residential construction, as a follow-up to an HPO research project on this subject.

Result: Target met.

performance measures, targets and results

Goal Four: Become a Strategic Centre for Building Industry Research (continued)

Resources Leveraged by the HPO Through Other Funding Partners

Year	Target	Actual
2002/03	At least twice the amount invested by the HPO leveraged through partnerships	Contributions by partners represented 79% of total project funding.
2003/04	At least twice the amount invested by the HPO leveraged through partnerships	Contributions by partners represented 42% of total project funding.
2004/05	At least twice the amount invested by the HPO leveraged through partnerships	Contributions by partners represented 54% of total project funding.
2005/06	At least twice the amount invested by the HPO leveraged through partnerships	Contributions by partners represented 49% of total project funding.
2006/07	**At least twice the amount invested by the HPO leveraged through partnerships**	**Contributions by partners represented 64% of total project funding.**
2007/08	At least twice the amount invested by the HPO leveraged through partnerships	
2008/09	At least twice the amount invested by the HPO leveraged through partnerships	
2009/10	At least twice the amount invested by the HPO leveraged through partnerships	

This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO by the other partners for projects that were completed or underway during the fiscal year.

Contributions by partners represented 64% of total project funding. This percentage for 2006/07 represents an increase over the previous year.

Thirteen projects were completed or underway during the fiscal year representing an HPO funding commitment of approximately $243,000. Our partners committed an additional $430,000 to these projects for a total financial commitment of approximately $673,000.

Major funding partners in 2006/07 include:

- Canada Mortgage and Housing Corporation
- Building Policy Branch
- British Columbia Institute of Technology
- Ministry of Energy, Mines and Petroleum Resources
- Canadian Home Builders' Association of BC
- Residential Construction Industry Training Organization

Result: Progress made towards meeting the target.

performance measures, targets and results

Goal Five: An Aligned, Focused and Capable Organization

Timeliness of Decisions on Completed Licence Applications

Year	Target	Actual
2002/03	5 business days or less	3.1 business days
2003/04	5 business days or less	3.6 business days
2004/05	3 business days or less	3.1 business days
2005/06	3 business days or less	2.7 business days
2006/07	**3 business days or less**	**2.9 business days**
2007/08	3 business days or less	
2008/09	3 business days or less	
2009/10	3 business days or less	

This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions for new, completed applications. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders. Data is obtained through the Licence Information Management System database.

An average of 2.9 business days in 2006/07 represents a slight increase compared to an average of 2.7 business days in the previous year. Overall, the number of residential builders licensed or renewed in 2006/07 rose 3.1% over the previous year, while the number of owner-builders remains unchanged from the previous year.

As was noted in an earlier performance measure, the 2005/06 builder survey found that 91% of builders were very or somewhat satisfied with the timeliness of licensing decisions.

The licensing approval process typically involves verification of company information, acceptance with a home warranty insurance provider, and review of past residential construction activity.

HPO licensing timelines compare well with many similar organizations:

- Washington State contractor registration –
  - Two days for applications that are mailed
  - One hour or less for walk-in registrations
- Maryland Home Builder Registration (similar requirements to B.C.) – five to seven days
- Tarion Warranty Corporation builder registration – two to four weeks.
- The Builders Registration Board of Western Australia – six to eight weeks.

Result: Target met.

Performance measures, targets and results

Goal Five: An Aligned, Focused and Capable Organization (continued)

Timeliness of Decisions on Completed Homeowner Applications for the Reconstruction Loan Program

Year	Target	Actual
2005/06	Establish baseline, set targets	8.2 business days
2006/07	**10 business days or less**	**7.1 business days**
2007/08	10 business days or less	
2008/09	9 business days or less	
2009/10	8 business days or less	

This is a new measure introduced in the 2006-2009 Service Plan, measuring the average number of business days required to make a decision on completed applications by homeowners for the Reconstruction Loan Program. Data is obtained from the HPO's loans database.

The baseline average was calculated at 8.2 business days in 2005/06 representing a total of 907 loan applications reviewed. In 2006/07, an average of 7.1 business days represents a slight decrease compared to the baseline of 8.2 business days. The application process involves verification that the proposed building envelope repairs fall under the guidelines of the program, review of individual applications to determine eligibility for financial assistance, and establishment of a mutually agreeable repayment schedule for the loan.

Result: Target met.

This is a new measure introduced in the 2006-2009 Service Plan.

performance management systems

Survey of Licensed Residential Builders

The biennial survey of Licensed Residential Builders is the data source for several key performance measures. Carried out by a market research firm, the builder survey is a self-administered questionnaire sent to all Licensed Residential Builders in B.C. The response of 1,094 builders in the 2005/06 survey provides a confidence level of 95% with a maximum margin of error of +/- 3.0%.

Consumer Survey

The biennial consumer survey is the data source for several key performance measures. Carried out by a market research firm, the survey includes two separate groups of consumers:

1. homeowners with warranty insurance under the *Homeowner Protection Act* on their home, and
2. prospective buyers of new homes in B.C.

The 2006/07 consumer survey included 400 telephone interviews with randomly selected owners of homes with warranty insurance. At the 95% confidence level, the maximum margin of error on the total sample is +/- 4.9%. A total of 614 surveys were carried out for prospective new home buyers (i.e. intending to purchase a home with warranty insurance over the next year), 514 of which were conducted on-line and 100 by telephone. At the 95% confidence level, the maximum margin of error on the total sample is +/- 4.0%. The on-line survey was introduced into the 2006/07 methodology for the prospective new home buyer survey to gain cost efficiencies (compared to telephone surveys).

Notes on Specific Performance Measures

Builder satisfaction with licensing system – This measure tracks Licensed Residential Builder satisfaction with the HPO licensing system. Builder satisfaction is tracked through the biennial survey of all licensed builders. Sub-components of satisfaction being tracked include: fairness of the rules/requirements, application and renewal process, and timeliness of licensing decisions.

Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption – The HPO carries out compliance activities to ensure that all new homes in B.C. are built in keeping with the licensing, warranty insurance and owner-builder exemption provisions of the *Homeowner Protection Act*. Licensed builders rate the effectiveness of the compliance efforts through the biennial survey.

Homebuyer awareness of consumer protections – This measure tracks buyers of new homes' awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Data for this measure is collected through the biennial survey of prospective buyers of new homes. It should be noted that data for 2006/07 is based on the results of the telephone survey portion (100 respondents) due to methodological considerations.

Homeowner satisfaction with warranty insurance – This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new home. Data for this measure is obtained through the biennial survey of owners of new homes with home warranty insurance.

Homeowner satisfaction with the quality of home construction – This measure tracks homeowner satisfaction with the quality of the construction of their home. Data for this measure is obtained through the biennial survey of owners of new homes with warranty insurance.

Homeowner satisfaction with the building process – This measure tracks homeowner satisfaction with the building process for their new home. Data for this

performance management systems

measure is obtained through the biennial survey of owners of new homes with warranty insurance.

Recovery of homes' values following building envelope renovation – This measure, tracked annually, monitors the improvement of assessed values of homes with repair loans following the completion of building envelope renovations. The measure is calculated as the percentage of homes in the HPO's Reconstruction Program with completed repairs whose assessed values have increased by an amount equal to or greater than the cost of repairs.

Assessed values of homes are adjusted on an annual basis by B.C. Assessment Authority to reflect changes in market value. Assessment data offers the opportunity to track changes in home values including homes that have not been put on the market or sold by owners. It should also be noted that annual reporting for this measure includes a 6-month time lag due to the annual property assessment cycle, i.e., assessed values as of July 1 are used in the calculation.

Reconstruction loan default rate – This measure, performed on an annual basis, tracks the effectiveness of the Reconstruction Loan Program in helping to ensure that homeowners do not have to lose their homes as a result of building envelope renovation costs. The data used for this measure is the number of loan defaults among homeowners with reconstruction loans, and is benchmarked against residential mortgage default rates in B.C.

Homes with warranty insurance claims – This measure is an indicator of the quality of residential construction in B.C. as reflected in the number of claims made by homeowners for repairs under home warranty insurance. For the 2002/03, 2004/05 and 2006/07 fiscal years, proxy data from the biennial homeowner survey is used in lieu of data from warranty providers. Warranty providers began providing summary claims data to the Homeowner Protection Office in 2006/07, and this data may be used to report on this performance measure in future years. The warranty insurance claims process is described under the *Homeowner Protection Act*. The homeowner must provide the warranty provider and residential builder written notice in reasonable detail that provides particulars of any specific defects covered by the home warranty insurance. Upon receipt of a notice of claim, a warranty provider must make reasonable efforts to respond, evaluate the claim and schedule any required repairs. During the evaluation the warranty provider determines the validity of the claim, and notifies the owner of the reasons for the decision.

Builder rating of their overall relationship with their warranty provider – This measure tracks the licensed builders' rating of their overall relationship with their warranty provider. Builder ratings are tracked through the biennial survey of all licensed builders. Subcomponents of this measure being tracked include: ease of the application process for coverage, cost of the warranty insurance and handling of complaints or claims from consumers.

Homeowner satisfaction with warranty insurance – Same measure as described under Goal 2: Informed and Protected Consumers. This measure has been repeated under Goal 3 as homeowner satisfaction is also a valid indicator of the viability of the home warranty insurance system from the perspective of consumers.

Research results disseminated – Recognizing the HPO's role of ensuring that research results and best practices are disseminated to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions. Prior to 2005/06, targets for this measure have been for two year periods. Beginning in 2006/07, targets have been set on an annual basis.

Research results incorporated into building standards and best practices – This measure estimates the effectiveness of the HPO in ensuring that results of research projects are incorporated into standards, codes and best practices. The performance measure tracks the HPO's participation and input into the national and provincial code development process, and involvement in the development of best practice guides and training courses.

performance management systems

Leveraging of additional research and education funding – This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO from other partners for active research and education projects.

Timeliness of decisions on completed license applications – This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions on completed applications for new licences. Specific targets are set to ensure that HPO licensing decisions are made expeditiously, thus avoiding unnecessary and potentially costly delays for residential builders. This performance measure is benchmarked against other jurisdictions that register or license residential builders.

Timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program – This measure was introduced into the 2006-2009 Service Plan. It is a measure of the HPO's responsiveness in making decisions on completed homeowner Reconstruction Loan applications. Baseline data was obtained in 2005/06 and targets were set in the 2007-2010 Service Plan.

The builder survey is a self-administered questionnaire sent to all Licensed Residential Builders in B.C.

alignment with the Provincial Government's strategic plan

This annual report describes the HPO's performance towards achieving its five key goals:

1. **Professionalization of the residential construction sector**
2. **Informed and protected consumers**
3. **Continued viability of the home warranty insurance system**
4. **Become a strategic centre for building industry research, and**
5. **An aligned, focused and capable organization.**

These goals are closely aligned with the goals stated in the Province's 2007/08 – 2009/10 Strategic Plan. This plan includes the goal "to create more jobs per capita than anywhere else in Canada."

The residential construction sector is a major economic driver in the province, contributing to the province's gross domestic product at a level that is comparable to other major industries such as forestry and the utilities. Strong consumer confidence in the residential construction sector contributes to greater demand for new homes and, thus, creates new higher paying jobs and employment opportunities for British Columbians.

BRITISH COLUMBIA
The Best Place on Earth

Consumer confidence and a healthy residential construction sector also support other sectors of the provincial economy such as the forest industry by stimulating demand for wood products.

The goals are consistent with the Ministry of Forest and Range's Office of Housing and Construction Standards' service plan goal of safety in the built environment through relevant and responsive codes, standards and regulatory systems, and the protection of homeowners.

Strong consumer confidence in the residential construction sector contributes to greater demand for new homes.

glossary of terms

Building envelope — the assemblies, components and materials of a building that are intended to separate and protect the interior space of the building from the adverse effects of exterior climatic conditions.

Building envelope renovation — construction work on a residential building to:
1. repair defects in the building envelope which allow unintended water penetration, or
2. repair damage caused by unintended water penetration.

Building envelope renovator — a residential renovator who is licensed under Part 1 of the *Homeowner Protection Act* to engage in, arrange for or manage all, or substantially all, of a building envelope renovation.

Futures Report — a document containing the HPO Board of Directors' recommendations for the future of the *Homeowner Protection Act* and regulations as well as the Homeowner Protection Office.

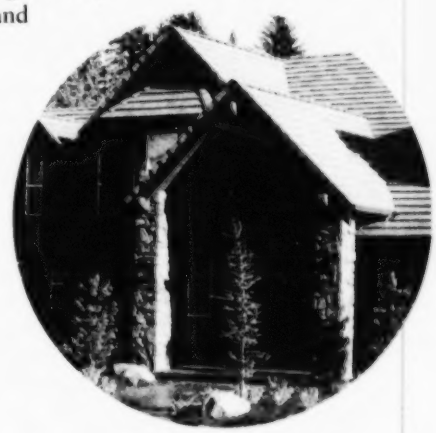
Loans Approved — a classification of loan status indicating that a loan to an eligible homeowner for repairs of a leaky home has been approved by the HPO.

Loans Issued — a classification of loan status indicating that mortgage instructions have been released by the HPO for execution and registration at the BC Land Titles Office, with funds subsequently released on completion of the registration of the mortgage charge against the title.

Owner-builder — an individual who builds a single, detached home for their own personal use, not more than once in an 18-month period.

Premature building envelope failure — premature deterioration of the building envelope assembly resulting from environmental factors including airflow, radiant energy, water vapour, rain and snow.

Residential builder — a person who engages in, arranges for or manages all or substantially all of the construction of a new home, and includes a developer and a general contractor.



Homeowner
Protection Office

31 March 2007 Financial Report

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The B.C. residential construction market in which the HPO operates remained strong throughout the year.

management discussion and analysis

Overview

Revenues collected from residential builder license fees provide the funding for the Homeowner Protection Office's (HPO) programs with the exception of the Reconstruction Loan Program and the PST (Provincial Sales Tax) Relief Grant Program. The Reconstruction Loan Program is funded by a reconstruction fee on each new residential unit in multi-unit buildings constructed in the coastal climate zone. When demand for financial assistance is greater than the revenues collected from the reconstruction fee, the HPO receives bridge financing from the Province of British Columbia. The HPO is required to repay any borrowings obtained through bridge financing over time. The PST Relief Grant Program is administered by the HPO on behalf of the Province of British Columbia. The Province of British Columbia funds all grants and operational expenditures under this program.

The B.C. residential construction market in which the HPO operates remained strong throughout the fiscal year. Enrollment of new, multi-unit homes continued to increase, resulting in an increase in reconstruction fee revenues over last year. Revenues from new and renewed builders' licences increased slightly over the same period compared to last year. The demand for financial assistance continued as owners of leaky homes repaired their units.

Net Operating Results

Net income in 2006/07 was $6.5 million, down $0.6 million from 2005/06. Revenues decreased $0.3 million from $28.6 million in 2005/06 to $28.3 million in 2006/07 and expenditures increased from $21.4 million in 2005/06 to $21.8 million in 2006/07.

Provincial contributions for the PST Relief Grant Program were down significantly due to fewer grant applications received in the year. Loan discount recoveries are down mainly due to changes occurring in the loan portfolio, which now has a greater proportion of new loans with a lower discount rate. The decrease in revenue was offset by an increase in revenues from reconstruction and license fees arising from an increase in the number of HPO-registered multi-units and an increase in the number of paid builder licences. Fees remain unchanged.

Expenditures experienced increases and decreases, with decreases significantly offsetting the increases in expenditures resulting in an overall slight increase in total expenditures over last year. A significant decrease occurred in the Reconstruction Loan grant expense and the PST Relief Grant payments. A recovery of loan loss expenditures occurred while a significant increase occurred in the interest subsidy expense for housing co-operative repair loans. The decrease in the loan grant expense was mainly due to a lower average value of new deferred payment loans.

The actual net income is substantially higher than the budget net income for the year mainly due to lower than estimated expenditures. Reconstruction Loan grants and PST Relief Grant payments are significantly below budget mainly due to a lower average value of new deferred payment loans, fewer PST Relief Grant applications and lower housing co-operative repair loan balances than estimated. (See Table 1 showing the changes in net operating results.)

management discussion and analysis (continued)

Table 1:

	Net Operating Results										
	Actual 2006/2007 ($000's)	Actual % change to actual over last year	**Budget 2006/2007 ($000's)**	Actual % to Budget 2006/2007	**2005/2006 ($000's)**	Actual % change to actual over last year	**2004/2005 ($000's)**	Actual % change to actual over last year	**2003/2004 ($000's)**	Actual % change to actual over last year	**2002/2003 ($000's)**
Revenues	**28,285**	(1.0)	**29,208**	(3.2)	**28,569**	14.6	**24,940**	2.5	**24,339**	3.8	**23,444**
Expenditures	**21,769**	1.5	**28,761**	(24.3)	**21,440**	2.8	**20,864**	5.9	**19,702**	(1.1)	**19,917**
Net income	**6,516**	(9.4)	**447**	1,357.7	**7,129**	74.9	**4,076**	(12.1)	**4,637**	31.5	**3,527**

Retained Earnings

The retained earnings of the HPO increased $6.5 million from $12.9 million in 2005/06 to $19.4 million in 2006/07 due to an excess of revenues over expenditures in current year operations. (See Table 2 showing the changes in the HPO's retained earnings.)

Table 2:

	Retained Earnings								
	2006/2007 ($000's)	% Change over last year	**2005/2006 ($000's)**	% Change over last year	**2004/2005 ($000's)**	% Change over last year	**2003/2004 ($000's)**	% Change over last year	**2002/2003 ($000's)**
Retained earnings	**19,414**	51.5	**12,898**	123.6	**5,769**	240.8	**1,693**	157.5	**(2,944)**

General Operating Program Results

Research and Education, and licensing programs are mainly funded by residential builder license fees. Seminar fees collected from residential builders go directly to help offset costs of delivering Building Smart seminars.

Revenues from license fees rose slightly, up 1.5% over last year to $3.5 million in 2006/07 as a result of a continued strong housing market. Building Smart seminar fees collected are up substantially as a result of increased participation.

Expenditures on industry research and education, and consumer education are up significantly over last year's expenditures of $0.5 million to $0.8 million in 2006/07. The HPO responded to increased demand for Building Smart seminars, publications, and contributions to industry educational initiatives.

Expenditures on licensing and compliance activities decreased slightly from $2.2 million in 2005/06 to $2.1 million in 2006/07 due to lower salary costs arising from vacancies.

Financial Assistance Program Results

The HPO continues to provide financial assistance through its Reconstruction Loan Program and administers the PST Relief Grant Program.

management discussion and analysis (continued)

PST Relief Grant Program

The PST Relief Grant Program provides a rebate on completed building envelope repairs and is available to owners of condominiums, townhouses, detached homes and housing co-operatives. This program is administered on behalf of the Province of British Columbia. PST Relief Grant payments are down from $2.9 million in 2005/06 to $2.3 million in 2006/07 as fewer grant applications were received in the year.

The PST Relief Grant Program experiences fluctuations in the total value of grant payments as payments are made upon completion of eligible repairs, subject to advance approval of the grant application. As grant applications may be submitted at any time, decreases in the value of PST Relief Grant payments may not necessarily indicate a decline in the demand for PST relief on repaired leaky homes. (See Table 3 showing the changes in the value of PST Relief Grant payments.)

Table 3:

	Value of PST Relief Grant Payments								
	2006/2007 ($000's)	% Change over last year	2005/2006 ($000's)	% Change over last year	2004/2005 ($000's)	% Change over last year	2003/2004 ($000's)	% Change over last year	2002/2003 ($000's)
Grant payments	**2,336**	(18.7)	**2,874**	(12.1)	**3,271**	30.8	**2,501**	(19.5)	**3,107**

Reconstruction Loan Program

The HPO continues to provide financial assistance to all eligible homeowners as homeowners repair leaky units. The demand for deferred payment loans and no-interest loans increased substantially in 2006/07. The fluctuations in the number of loans issued occurs normally due to the timing of when strata owners approve the repair costs. The number of housing co-operative loans, expressed in number of units, rose significantly this year from 100 units in 2005/06 to 449 units in 2006/07. This category of repair loans experiences a high degree of swings in the annual number of units approved for repair loans due to a variety of factors including long lead times before reconstruction begins. (See Table 4 showing the changes in the annual number of approved Reconstruction Loans expressed in units.)

Table 4:

	Number of Approved Reconstruction Loans (expressed in units)								
	2006/2007	% Change over last year	2005/2006	% Change over last year	2004/2005	% Change over last year	2003/2004	% Change over last year	2002/2003
HPO mortgages and deferred payment loans	**575**	39.9	**411**	3.0	**399**	3.9	**384**	(28.8)	**539**
Financial institutions no-interest loans	**586**	38.5	**423**	(40.7)	**713**	4.4	**683**	(36.6)	**1,077**
Total HPO & financial institutions loans	**1,161**	39.2	**834**	(25.0)	**1,112**	4.2	**1,067**	(34.0)	**1,616**
Total housing co-op repair loans administered through CMHC	**449**	349.0	**100**	(57.8)	**237**	(64.5)	**667**	373.0	**141**

management discussion and analysis (continued)

The average value of the issued loan amounts, excluding housing co-operative repair loans, decreased this year, reversing a trend of increasing average values of issued loans over the last several years. (See Table 5 showing the average annual value per unit of issued reconstruction loans independent of housing co-operative loans.)

Table 5:

	Average Annual Value per Unit of Issued Reconstruction Loans								
	2006/2007	% Change over last year	2005/2006	% Change over last year	2004/2005	% Change over last year	2003/2004	% Change over last year	2002/2003
HPO mortgages	$ 58,710	(1.6)	$ 59,658	25.9	$ 47,393	14.5	$ 41,383	14.5	$ 36,133
HPO deferred payment loans	$ 49,045	(3.5)	$ 50,823	11.7	$ 45,509	27.9	$ 35,585	(13.9)	$ 41,307
Financial institutions – no-interest mortgages	$ 51,129	(0.8)	$ 51,558	21.6	$ 42,411	5.2	$ 40,308	12.8	$ 35,746

The per unit value of approved housing co-operative repair loans increased 7.5% over last year's cumulative average loan amount of $62,300 to $66,967 due to the continued increase in housing co-operative repair costs.

Mortgages held by financial institutions are based on the bank's prime lending rate. The annual prime lending rate in 2006/07 moved up from 5.75% in April 2006 to 6% in May 2006 and remained the same for the balance of the year. Last year's average annual prime lending rate was 4.7%. An upward change in the prime lending rate increases the HPO's interest subsidy expense.

Interest is paid on housing co-operative loan advances made during the repair period at a construction floating rate set by Canada Mortgage and Housing Corporation (CMHC). In 2006/07, the average construction floating rate was 4.27%. On completion of the repairs, the interest rate is set by CMHC at an interest rate equal to the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75%. On a year-to-date basis, interest rates for interest adjustment dates range from a low of 3.71% to a high of 5.00%. (See Table 6 showing the changes in interest subsidy expense.)

Table 6:

	Interest Subsidy Expense								
	2006/2007 ($000's)	% Change over last year	2005/2006 ($000's)	% Change over last year	2004/2005 ($000's)	% Change over last year	2003/2004 ($000's)	% Change over last year	2002/2003 ($000's)
Financial institutions	4,625	15.0	4,021	8.7	3,700	(16.4)	4,427	18.6	3,734
CMHC for housing co-operative loans	1,421	59.1	893	33.3	670	5.3	636	2.7	619
Total interest subsidy expense	6,046	23.0	4,914	12.4	4,370	(13.7)	5,063	16.3	4,353

management discussion and analysis (continued)

The revenues from reconstruction fees are up $1 million to $16.1 million from $15.1 million in 2005/06 due to an increase in the volume of new multi-unit construction activity in the coastal climate zone, representing a 7% increase. Loan discount recoveries are down mainly due to changes occuring in the loan portfolio, which now has a greater proportion of new loans with a lower discount rate. (See Table 7 showing the changes in Reconstruction Loan Program revenues.)

Table 7:

	Revenues Under the Reconstruction Loan Program								
	2006/2007 ($000's)	% Change over last year	2005/2006 ($000's)	% Change over last year	2004/2005 ($000's)	% Change over last year	2003/2004 ($000's)	% Change over last year	2002/2003 ($000's)
Reconstruction fees	**16,131**	7.1	**15,065**	18.9	**12,675**	24.0	**10,224**	43.0	**7,150**
Federal contributions	**–**	–	**–**	–	**–**	(100.0)	**4,490**	(34.8)	**6,890**
Loan discount recoveries and other	**5,985**	(12.1)	**6,806**	18.3	**5,752**	43.2	**4,016**	37.5	**2,921**
Total revenues	**22,116**	1.1	**21,871**	18.7	**18,427**	(1.6)	**18,730**	10.4	**16,961**

Funds for repair loans advanced throughout the year on behalf of eligible homeowners continued to exceed the incoming funds to operate the Reconstruction Loan Program. This resulted in increased short-term borrowing from the Province of British Columbia by the HPO due to the continuing demand by eligible homeowners which has resulted in an increase in the outstanding loan balance. The total current cumulative debt obligation includes accrued interest and a $0.4 million no-interest PST Relief Grant operating advance, which is repayable on or before March 31, 2008. The HPO will repay the bridge financing loans provided by the Province of British Columbia over time with incoming reconstruction fees collected in the ensuing years. (See Table 8 showing the changes in short-term borrowing obligations.)

Table 8:

	HPO Short-term Debt and Advances Due to the Province of BC								
	2006/2007 ($000's)	% Change over last year	2005/2006 ($000's)	% Change over last year	2004/2005 ($000's)	% Change over last year	2003/2004 ($000's)	% Change over last year	2002/2003 ($000's)
Balance outstanding on March 31st	**34,780**	9.3	**31,816**	12.1	**28,388**	12.6	**25,214**	0.4	**25,124**

In addition to its debt obligations, the HPO has a commitment to pay the subsidized interest costs on behalf of eligible homeowners for all repair loans provided by financial institutions and CMHC for housing co-operative repair loans. The present value of interest to be paid in the future by the HPO on subsidized interest loans approved is $96.9 million in 2006/07 up from $81.7 million in 2005/06, due to increased outstanding loan balances as loans continue to be issued to eligible owners of leaky homes.

management discussion and analysis (continued)

The HPO expects a strong, but softening housing market and a continuing trend towards a higher proportion of new multi-unit residences. It is forecasted that the resale market for multi-unit residences will be strong due to a continuing demand for housing, which will enable homeowners to sell their repaired homes and repay their no-interest loans. Expenditures will trend upwards as more leaky homes are repaired in an environment of rising construction costs and upward pressure on interest rates.

Full-Time Equivalents of Staff Resources

The HPO operated with a full-time equivalent complement which has remained relatively stable. (See Table 9 showing staff utilization expressed in full-time equivalents.)

Table 9:

	Full-Time Equivalents of Staff Resources								
	2006/2007	% Change over last year	**2005/2006**	% Change over last year	**2004/2005**	% Change over last year	**2003/2004**	% Change over last year	**2002/2003**
Full-time equivalents	**35**	–	**35**	2.9	**34**	3.0	**33**	(2.9)	**34**

Statement of management responsibility

The financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements of the Homeowner Protection Office (HPO) have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The HPO's external auditors independently perform such tests of the system of internal controls, as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which comprises directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.

Ken Cameron
Chief Executive Officer

Linda McKay
Manager, Finance and Administration

May 15, 2007

auditors' report

To the Directors of
Homeowner Protection Office

And

To the Minister of Forests and Range and the
Minister Responsible for Housing

We have audited the balance sheet of the Homeowner Protection Office (HPO) as at March 31, 2007 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the HPO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the HPO as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
May 15, 2007

balance sheet

As at March 31st, 2007

(expressed in thousands of dollars)

	2007 $	2006 $
Assets		
Current assets		
Cash	1,175	749
Cash for Reconstruction Loans and PST Relief Grant programs (note 3)	3,752	2,665
Due from Province of British Columbia (note 4)	17	295
Accounts receivable	1,416	769
Prepaid expenses	59	42
Current portion of loans receivable (note 3)	2,642	2,492
	9,061	7,012
Loans receivable (note 3)	48,042	41,296
Property and equipment (note 5)	19	42
	57,122	48,350
Liabilities and retained earnings		
Current liabilities		
Accounts payable and accrued liabilities	903	756
Loan loss provision (note 3)	2,025	2,880
Due to Province of British Columbia (note 6)	34,780	31,816
	37,708	35,452
Retained earnings	19,414	12,898
	57,122	48,350

Commitments (note 7)

Approved by the Board of Directors

_____ **Director**

_____ **Director**

The accompanying notes form an integral part of these financial statements.

For the year ended March 31st, 2007

statement of operations

(expressed in thousands of dollars)

	2007 $	2006 $
Revenues		
Reconstruction fees	16,131	15,065
Loan discount recoveries	5,883	6,669
License fees	3,527	3,476
Provincial contributions	2,470	3,146
Interest	181	165
Other	93	48
	28,285	28,569
Expenditures		
Reconstruction loan grants (note 3(b) and (c))	8,125	9,296
Interest subsidy (note 3(a))	6,046	4,914
Salaries and wages	2,527	2,548
PST Relief Grants	2,336	2,874
Interest and fees	1,309	896
Travel, office and other	1,223	1,228
Legal and professional fees	224	227
Communications and printing	219	217
Consumer and Industry education	215	77
Rent and utilities	205	203
Research studies	114	68
Amortization	36	71
Loan loss provision	(810)	(1,179)
	21,769	21,440
Excess of revenues over expenditures	**6,516**	**7,129**

The accompanying notes form an integral part of these financial statements.

Statement of retained earnings

For the year ended March 31st, 2007

(expressed in thousands of dollars)

	2007 $	2006 $
Beginning of year	12,898	5,769
Excess of revenues over expenditures	6,516	7,129
End of year	19,414	12,898

The accompanying notes form an integral part of these financial statements.

For the year ended March 31st, 2007

Statement of cash flows

(expressed in thousands of dollars)

	2007 $	2006 $
Cash flows from operating activities		
Cash received from		
Residential builders for reconstruction fees	15,469	15,381
Homeowners for principal-only payments on loans	13,131	14,256
Residential builders for license fees	3,529	3,492
Province of British Columbia for programs	2,617	3,237
Interest on bank deposits	176	168
Partners in funding research and education activities	102	48
Cash paid for		
Homeowners for reconstruction loans	(22,269)	(24,856)
Financial institutions for interest on CMHC-insured loans	(6,036)	(5,040)
Suppliers and employees	(4,467)	(4,768)
Homeowners for PST Relief Grants	(2,336)	(2,874)
Province of British Columbia for loan interest	(1,326)	(814)
Financial institutions for defaults on CMHC-insured loans	(45)	(120)
	(1,455)	(1,890)
Cash flows from investing activities		
Purchase of property and equipment	(13)	(22)
Cash flows from financing activities		
Net proceeds from borrowing	2,981	2,946
Province of British Columbia for PST Relief Grant program	-	400
	2,981	3,346
Increase in cash	1,513	1,434
Cash – Beginning of year	3,414	1,980
Cash – End of year	4,927	3,414
Represented by		
Cash	1,175	749
Cash for Reconstruction Loan and PST Relief Grant programs	3,752	2,665
	4,927	3,414

The accompanying notes form an integral part of these financial statements.

March 31st, 2007

notes to financial statements

1. General

The Homeowner Protection Office (the HPO) was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the "*Act*"). The purposes of the *Act* are:

- to license residential builders and other persons required to be licensed under the *Act*;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Loan Program to provide financial assistance to eligible homeowners for home reconstruction.

The license fees collected, including a per unit licence fee for new or building envelope renovated dwelling units, fund all of the operations of the HPO except for the Reconstruction Loan and PST (Provincial Sales Tax) Relief Grant Programs. The Province provides a contribution to the HPO to cover the administration costs and grant payments of the PST Relief Grant Program. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education.

2. Significant accounting policies

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are noted below.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision, and amortization of capital assets. Actual results could differ from those estimates.

Property and equipment

Property and equipment are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	three years
Leasehold improvements	over the lease term
All other property and equipment	five years

No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the HPO are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial government borrowing rate for equivalent terms. Present value discounts are recorded as a grant expense in the year a loan is funded. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

March 31st, 2007

notes to financial statements (continued)

Canada Mortgage and Housing Corporation (CMHC)-insured loans

Loans provided by financial institutions under the Reconstruction Loan Program do not appear on the balance sheet of the HPO. However, the HPO has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to $375 million with respect to any approved financial institution loans issued under the Reconstruction Loan Program up to October 1, 2024. Accordingly, the HPO's loan loss provision reflects a provision for CMHC-insured loans (note 3).

Loan loss provision

The loan loss provision consists of a non-specific allowance to provide for losses inherent in the loan portfolio for which a specific allowance cannot yet be determined. The loan loss provision is made to reduce the carrying amount of individual loans recorded in the financial statements of the HPO to their estimated realizable amount.

As the HPO indemnifies the CMHC with respect to its insurance of homeowner loans, the HPO reviews the homeowner loan portfolio for any indications of default or impairment. If any default or impairment on outstanding principal amounts has occurred, the HPO records a liability for a loan provision in respect of these loans.

Housing co-operative repair loans are loans on which the HPO is liable to pay interest subsidies only to CMHC. As these loans issued by CMHC carry no recourse to the HPO in event of borrower default on the loan principal then no provision is assessed or provided for with respect to housing co-operative repair loans.

Financial dependence

The HPO is financially dependent on the Province of British Columbia for its financing and ability to borrow funds for operations (note 6).

Federal and provincial taxes

The HPO is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

Cash

Cash consists of cash held in a separate account and is not restricted as to use.

Cash for Reconstruction Loan and PST Relief Grant programs

Cash for Reconstruction Loan and PST Relief Grant programs consists of cash amounts held in separate accounts and restricted as to use (note 3).

Future Accounting changes

In April 2005, the Accounting Standards Board issued CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement, along with two companion standards, Section 1530, Comprehensive Income and Section 3865, Hedges. As a government supported Crown corporation, the HPO has reviewed the adoption criteria and determined that the adoption date of the new accounting standards will be as of April 1, 2008 for the office. The HPO is in the process of determining the impact of the new accounting standards for the organization.

March 31st, 2007

notes to financial statements (continued)

3. Reconstruction Loan Program

Under the *Act*, money paid to the credit of the Reconstruction Loan Program must only be used for the purposes of the program. Accordingly, cash balances for this program are segregated and shown separately on the balance sheet.

Under the Reconstruction Loan Program, financial assistance is provided to homeowners who cannot afford to pay or obtain conventional financing for repairs to their homes with premature building envelope failure. The financial assistance is secured by mortgages registered against the title of the home to be repaired. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

a) Subsidized interest loans through the first mortgage lender

i) Homeowner

Under agreements with financial institutions and CMHC, the HPO approves loans to homeowners for repairs to homes with premature building envelope failure and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, the loan does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The HPO pays interest on the homeowner's behalf to the financial institution at the prime borrowing rate of the lender. This interest is included in the interest subsidy in the statement of operations.

ii) Housing co-operatives

Under an agreement with CMHC, the HPO approves loans to housing co-operatives with premature building envelope failure. The loan is advanced by CMHC who is also the first mortgage lender. The housing co-operative makes a monthly principal-only payment to CMHC. The HPO pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the HPO pays interest at CMHC's Construction Floating Rate. At IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus a premium not more than 0.75% per annum, compounded semi-annually in arrears. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in interest subsidy in the statement of operations.

The HPO has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the HPO with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear on the balance sheet of the HPO.

b) No-interest loans through the HPO

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the HPO provides a no-interest loan to the homeowner. The homeowner makes principal-only payments to the HPO. Loans advanced directly by the HPO are not CMHC-insured. The net present value of these loans is included in loans receivable in the balance sheet. The net present value of the interest discount has been recorded as reconstruction loan grants in the statement of operations.

March 31st, 2007

notes to financial statements (continued)

c) Deferred payment loans through the HPO

In circumstances where eligible homeowners qualify for no-interest loans under the Reconstruction Loan Program, but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the HPO may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the homeowner resides in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan, then the shortfall may be forgiven. The net present value of these deferred payment loans is included in loans receivable in the balance sheet. The net present value of the interest discount is recorded as reconstruction loan grants in the statement of operations.

d) Details of loans issued under the Reconstruction Loan Program:

	2007		2006	
	Number of loans	Balance outstanding ($000's)	Number of loans	Balance outstanding ($000's)
On-Balance Sheet Loans				
No interest loans	1,018	40,600	982	35,818
Deferred payment loans	1,090	38,370	1,022	33,990
Less: loans discount		(28,286)		(26,020)
	2,108	50,684	2,004	43,788
Less: current portion		2,642		2,492
		48,042		41,296
Third Party Loans (Off-Balance Sheet Loans)				
Subsidized interest loans				
Homeowner	2,311	81,766	2,650	82,299
Housing co-operatives	20	37,580	20	24,337
	2,331	119,346	2,670	106,636
Total loans outstanding	4,439	170,030	4,674	150,424

The allowance for losses on loans consists of:	2007 ($000's)	2006 ($000's)
Beginning of year	2,880	4,180
Recovery of losses during the year	(810)	(1,179)
Write-offs	(45)	(121)
End of year	2,025	2,880

notes to financial statements (continued)

March 31st, 2007

Cumulative loans approved to March 31, 2007 were as follows:

	Number of loans	Total financial assistance approved ($000's)
Subsidized interest loans		
Homeowners	8,712	268,355
Housing co-operatives (*)	62	230,502
No interest loans	2,066	83,122
Deferred payment loans	1,874	65,769
	12,714	647,748

At March 31, 2007 total loans approved, but not yet issued were as follows:

	Number of loans	Total financial assistance approved ($000's)
On-Balance Sheet Loans		
No-interest loans	185	7,166
Deferred payment loans	159	6,082
	344	13,248
Off-Balance Sheet Loans		
Homeowners	301	10,917
Housing co-operatives	45	187,190
	346	198,107
Total loans approved, but not issued	690	211,355

(*) The 62 approved housing co-operative loans comprise 3,442 homes.

March 31st, 2007

notes to financial statements (continued)

e) The revenues and expenditures of the Reconstruction Loan Program were as follows:

	2007 ($000's)	2006 ($000's)
Revenues		
Reconstruction levies	16,131	15,065
Loan discount recoveries	5,883	6,669
Interest	101	121
Provincial contributions	-	16
	22,115	21,871
Expenditures		
Reconstruction loan grants	8,125	9,296
Interest subsidy	6,046	4,914
Interest and fees	1,273	860
Administrative costs	1,266	1,206
Loan loss provision	(810)	(1,179)
	15,900	15,097
Excess of program revenues over expenditures	6,215	6,774

f) The present value of the interest to be paid in the future by the HPO on the subsidized interest loans approved comprises:

	2007 ($000's)	2006 ($000's)
Loans held by financial institutions	35,597	31,644
Housing co-operative repair loans – issued	9,746	7,064
Housing co-operative repair loans – approved but not issued	51,534	42,992
	96,877	81,700

Loans held by financial institutions are amortized over a 15-year period. Housing co-operative repair loans are amortized over a 40-year period.

Loans were approved, but not issued in instances where strata corporations or housing co-operatives had not yet signed contracts for the repair of the building envelope or had not yet passed the final special assessment for the cost of the repairs. It is uncertain if CMHC will access each housing co-operative loan approved by the HPO due to their independent determination of housing co-operative viability.

March 31st, 2007

notes to financial statements (continued)

4. Due from the Province of British Columbia

This account receivable includes interest due from the Province of British Columbia (the Province) representing interest earned on the HPO's balance of its overnight bank deposits in the Province's offset interest program, and reimbursement of PST Relief Grant payments made on behalf of the Province. The Province's offset interest program pays interest to the HPO at the prime rate of the Royal Bank of Canada less 1.75% approximately one month in arrears. Under the agreement between the Province and the HPO, the Province reimburses the HPO on a monthly basis for all PST Relief Grant payments made to eligible homeowners.

	2007 ($000's)	2006 ($000's)
PST Relief Grant reimbursement	-	147
Other provincial contributions	1	137
Offset interest earned	16	11
	17	295

5. Property and equipment

	Cost ($000's)	Accumulated Amortization ($000's)	2007 Net Book Value ($000's)	2006 Net Book Value ($000's)
Furniture and equipment	288	(282)	6	5
Computer hardware	308	(296)	12	27
Leasehold improvements	173	(173)	-	-
Computer software	177	(176)	1	6
Vehicles	40	(40)	-	4
	986	(967)	19	42

March 31st, 2007

notes to financial statements (continued)

6. Due to the Province of British Columbia

The HPO has the authority to borrow up to a maximum of $75 million from the Province to fund operations and the Reconstruction Loan Program. The HPO's Board of Directors has approved borrowing to a maximum of $55 million.

At March 31, 2007, the HPO had borrowed $34.8 million made up of short-term borrowings which comprised $6.1 million due April 13, 2007 with interest accrued at 4.18%, $9 million due April 26, 2007 with interest accrued at 4.19%, $2.5 million due on May 7, 2007 with interest accrued at 4.21%, $6.7 million due on May 23, 2007 with interest accrued at 4.20%, $10.1 million due on June 13, 2007 with interest accrued at 4.20% and $0.4 million due for payment on March 31, 2008 without interest.

7. Commitments

The HPO is committed in the normal course of business to paying interest on homeowners' behalfs to financial institutions at the prime rate of the lender. The actual interest subsidy payment amounts made and the present value of interest amounts to be paid in the future are disclosed in note 3(e) and (f).

During 2005, the HPO entered into a new operating lease for its office premises, which expires on January 31, 2011. At March 31, 2007, the HPO has minimum rental obligations under operating leases for office premises as follows:

Year ending March 31	($000's)
2008	208
2009	222
2010	236
2011	208
	874

The rental payments and operating costs are disclosed in the Statement of Operations.

8. Related party transactions

In the normal course of operations the HPO acquires goods and services from the Province of British Columbia under prevailing trade terms. Amounts due to/from the Province of British Columbia and income and expenses during the year are disclosed in the balance sheet and statement of operations respectively.

notes to financial statements (continued)

9. Financial instruments

The financial instruments of the HPO consist of cash, balances due to and from the Province of British Columbia, accounts receivable, loans receivable, and accounts payable. The fair values of balance sheet items, which are highly liquid or short-term in nature, approximate their carrying value. The fair value of loans receivable and amounts due to and from the Province of British Columbia are not practicable to determine.

The HPO's financial instruments are exposed to credit and interest rate risk. Credit risk is the risk that the HPO will incur a loss because of default of a reconstruction loan. Interest rate risk is the risk that the interest the HPO pays may change with the fluctuations in the market interest rates. Risk management policies have been implemented by the management. These policies include evaluating the eligibility for assistance under the Reconstruction Loan Program, securing the loan with a charge on title, and subsequently evaluating renewal requests, and regularly monitoring the loans.

10. Employee benefit plan

The HPO provides a defined benefit pension plan and other post-retirement benefits to all of its employees.

The HPO contributes to the Public Service Pension Plan (the plan), a jointly trusteed pension plan, to which employees and employers of the public service contribute. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits are defined.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The latest valuation as at March 31, 2005, indicated an unfunded liability of $767 million for basic pension benefits. The next valuation will be as at March 31, 2008, with results available in 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The HPO paid $181,022 for employer contributions to the plan during the year (2006 - $136,815).

Under the terms of their employment, employees of the HPO are also entitled to termination and other post retirement benefits that include health care benefits, which are provided under public service benefit plans. Defined contribution plan accounting is applied to these benefit plans as the HPO has insufficient information to apply defined benefit plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

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